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SIPDIS

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NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
AFR/SA FOR LOKEN, COPSON
TREASURY FOR RALYEA, CUSHMAN

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SUBJECT: SOARING COST OF LIVING HITS WORKING POOR HARDEST
OF ALL

REF: HARARE 1356

1. Summary: Soaring inflation has hit Zimbabwe's working poor hardest of all income earners, according to PricewaterhouseCoopers, September 2005 Cost of Living Analyses. While the GOZ's Central Statistical Office reported September's overall year-on-year inflation rate at 359.8 percent, up from 265 percent in August, the PricewaterhouseCoopers analyses pegged the figure at 543 percent for the low-income category, driven primarily by steep increases in the price of consumables and transportation. The cost of living for the middle-income category rose by 373 percent. High earners suffered 451 percent inflation. However, this group has the greatest flexibility in spending and many of these people have access to hard currency that can insulate them from soaring inflation. End Summary.

Methodology

2. PricewaterhouseCoopers, Cost of Living Analyses take a more sophisticated look at the cost of living than the reports regularly issued by the Central Statistical Office. The accounting firm breaks down consumers by income category) low, middle and high. It also applies different consumption baskets for each group, which explains why the increase in cost of items such as transportation, accommodation, or school fees varies markedly across the three categories.

Low-income Earners Hit Hardest by Inflation

3. PricewaterhouseCoopers's September 2005 Cost of Living Analyses pegged annualized low-income inflation at 543 percent, and the monthly increase at 50 percent. The low-income category includes unskilled and semi-skilled employees governed by trade unions and other wage agreements. Maximum monthly income in this category is Z\$5.1 million (US\$196 at the official exchange rate; US\$56 at the parallel rate). Very steep price increases in consumables and transportation drove the surge. The cost of a low-income basket of consumables jumped to 957 percent on the back of price explosions in washing powder (1285 percent), bath soap (929 percent), toothpaste (921 percent) and laundry soap (846 percent). Transport costs (measured by commuter omnibus rates and the Harare-Bulawayo bus fare) rose 1004 percent since September 2004 (reftel). The cost of rent (a 2-room accommodation) also exploded by 2208 percent. The analysis shows the cost of schooling having risen by 893 percent with fees for the lower grades up by 1036 percent. (Comment: An Embassy spot study of the cost of school fees for FSNs' children earlier this year arrived at somewhat lower numbers than the PricewaterhouseCoopers' analysis. While the accounting firm's figures may not be definitive, they are, however, illustrative of the cost of living pressures across the shopping basket and across income brackets. End Comment.)

Middle Income Earners, Better Protected

4. The PricewaterhouseCoopers analyses pegged the annualized increase in cost of living of the middle-income group) supervisory and management staff - at 373 percent. The biggest jumps came from transportation (2308 percent), consumables (884 percent), vegetables and fruit (524 percent), meats (497 percent) and medical care (469 percent). The lowest rates of increases in the middle-income shopping basket were in school fees (184 percent) and housing (245 percent), which reflected the cost of utilities, maintenance and repair of an owner-occupied residence.

High Earners) Room to Maneuver

15. In the high-income category of senior executives, the sharpest increase in the cost of living, which registered 451 percent overall, came from maintaining the spouse,s car (1136 percent), vacation spending abroad (1026 percent) and spending on consumables (776 percent). All of which can be easily reduced as need be. The lowest-paced increase in this income group came from housing (165 percent), domestic worker wages (450 percent) and medical costs (444 percent). This group,s relatively greater access to forex is another significant hedge against the effect of inflation on their spending patterns and lifestyle.

Comment

16. Middle and high-income earners can withdraw to their lien-free homes (hyperinflation,s silver lining), draw on well honed coping mechanisms, and ride out the hard times in the comfort of low-cost hired help. Low-income earners, on the other hand, are trapped in a dismal box. Operation Restore Order put extraordinary pressure on low-income urban rent rates; there,s no way round the high commuter transportation costs but to walk, and walk the workers do, for miles and miles, morning and evening. The working poor diet has been stripped down to subsidized mealie meal, assuming they,ve squirreled away enough sacks to bridge the shortages, with a scoop of greens and the very occasional grisly beef stew. How any low-income earner can maintain the dignity of good personal hygiene against the cost of soap and washing powder is anyone,s guess. Paying school fees (let alone the cost of school uniforms) is a supreme burden to low-income earners in a country that long prided itself on free, universal education.

17. The impact of inflation on these various groups also helps explain Zimbabwe,s continuing political stagnation. Protests against the deteriorating economic situation would normally be expected from the working poor, but they are completely consumed by the grind of eking out an existence. The better-fed professionals and small business owners, with their access to forex, may have time to consider the Government,s economic mismanagement and increasing abridgment of civil rights, but to date have had little incentive to speak out. That may change, however, if the decline continues to accelerate and begins to have a greater affect on their living standard as well.

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